

# Equity and Convertible funding





**ESN**  
**EUROPEAN**  
**STARTUP NETWORK**

# Equity and Convertibles notes

# Agenda

- Equity round
- Convertible notes

# Equity round

- Investor will get equity from your company
- It's a "priced round"
- Shareholder agreement
- Can be longer

# Convertible note/loan

- At time of issuing, it's a debt
- Not in your capital
- No right of governance

# When use convertible note

- Pre-seed
- Early seed
- Bridge funding

# Main points for convertible note

- Valuation CAP/Floor (Post or Pre-money)
- Maturity and conversion conditions
- Discount
- Multiple (IRR) if early exit



# Attention points of a convertible note

- Tax Shelter
- CAP on pre or post-money and how it converts
- CAP gives a valuation
- Discussions about “key” problems for later, good?

# Goals of a convertible note

- Convert in equity
- Test an idea or bridge a gap
- Make a quick investment (shorter legal documents)

## « Trick »

- Maturity valuation => 1,5X/2X higher than CAP

# Equity rounds

## Different types of shares

# Different types of shares

- Common Shares
  - As percentage of ownership
- Non-participating
  - Investor wants his money back until post-money
- Participating
  - Investor wants his money back and then pro-rata

# Different types of shares

- Cap non-participating
  - Investor wants his money back until post-money and until a certain amount
- Cap participating
  - Investor wants his money back and then pro-rata until a certain amount
- Both are normally used combined with shares without cap

# Different types of shares

- Non-participating (X time or IRR)
  - Investor wants (x-time) his money back until post-money
- Cap participating (X time or IRR)
  - Investor wants (x-time) his money back and then pro-rata
- Multiple is really aggressive, IRR can but understandable but not ideal (x-time)

# Different types of shares

- Carve-Out

- Pro-rata until certain percentage of exit (15-25%)
- Then participating



# Convertibles

## Different types of notes

# Different types of convertibles

- Without Discount
  - Normal dilution for everybody, same valuation
- Discount on Post-Money
  - POST => 1,25M€
  - For note Holder => 25% discount on 1,25M€
  - $50 / (1,25M€ * 0,75)$

# Different types of convertibles

- Discounton Pre-Money

- Pre-Money => 750k€
- Conversion :  $50\text{k€} / (750\text{k€} * 0,75)$
- AVOID THAT!

- CAP on Pre-Money

- CAP => 500k€
- Conversion :  $50\text{k€} / 500\text{k€}$
- Note holder was a "co-founder" => extra dilution =>  $(50/500) * 0,6$

# Different types of convertible (Dollar invested)

- Dollar invested without
  - Normal dilution for everybody, same valuation
- Dollar invested with discount
  - POST => 1,3M€ (Pre + note + Investment)
  - For note Holder => 25% discount on 1,3M€
  - $50 / (1,3M€ * 0,75)$

# Different types of convertibles (Dollar invested)

- Dollar invested CAP
  - CAP => 1M€
  - Conversion : 50k€/1M€
  - No extra dilution
  - Post-Money : 1,3M€



# Different types of convertibles (Percentage ownership)

- Percentage Ownership without dilution
  - Normal dilution
- Percentage ownership with discount
  - As with discount Post-Money
- Percentage ownership with CAP
  - CAP => 1M€
  - Conversion : 50k€/1M€
  - Post-Money : 1,25M€

# Focus Areas

What does ESN do exactly?



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## ***Make Collaboration Happen***

- Startup European Partnership programme (<http://startupeuropepartnership.eu>)  
a platform where the best scale-ups meet the best corporates

## ***EU Projects***

- Growing visibility & opportunities for European startups
- Corship (<https://www.corship.eu/>)
- UpskillingLab 4.0 (<https://www.upskillinglab.eu/>)
- TETRA (<https://www.ngi.eu/ngi-projects/tetra/>)

## ***European Startup Monitor***

- Analysis on European startup landscape & ecosystem  
=>infographics, maps & reports
- Providing the insight for policy makers to design the strategies
- Latest version 2019/2020 ([europeanstartupmonitor2019.eu](http://europeanstartupmonitor2019.eu))

## ***A common voice for European Startups***

- 21 European National representation
- EU & world-wide connected
- Lobby
- Research